

DEPARTMENT OF
TRANSPORTATION AND DEVELOPMENT
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED DECEMBER 18, 2013

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES**
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.27. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's website at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3366 or Report ID No. 80130039 for additional information.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 10, 2013

**DEPARTMENT OF TRANSPORTATION
AND DEVELOPMENT
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2013, we conducted certain procedures at the Department of Transportation and Development (DOTD) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an understanding of DOTD's operations and system of internal control, including controls over major federal award programs administered by the department, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DOTD.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DOTD's annual fiscal reports and/or system-generated reports and obtained explanations from management for any significant variances. We also scheduled the categories of significant funding sources for fiscal year 2013 and analyzed the trend of significant funding sources over the past five years for the Highway Priority Program for informational purposes.
- Our auditors reviewed the status of the findings identified in the prior management letter, dated January 29, 2013. The prior year findings related to improper reporting of construction retainage and liens payable and capital outlay payable and inadequate controls over subrecipient monitoring have been resolved by management. The finding related to inadequate controls over change order approvals has not been resolved and is addressed again in this letter.
- Our auditors considered internal control over financial reporting and examined evidence supporting the following: DOTD's capital outlay revenue, expenditures, payables, infrastructure, and right-of-way. We also tested DOTD's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget Circular A-133 on the Highway Planning and Construction Cluster (CFDA 20.205, 20.219) for the fiscal year ended June 30, 2013, as part of the Single Audit of the State of Louisiana.
- Based on the documentation of DOTD's controls and our understanding of related laws and regulations, our auditors also performed procedures on professional services contracts, the LaCarte purchasing card program, and Fueltrac fleet card purchases for the fiscal year ended June 30, 2013.

The Annual Fiscal Report of DOTD was not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The department's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included the following significant findings for management's consideration. All of the findings, except the finding on inadequate controls over Fueltrac purchases, will be included in the State of Louisiana's Single Audit Report for the fiscal year ended June 30, 2013.

Overbilled Indirect Costs

DOTD effectively double-counted audit costs in its indirect cost rate proposal, resulting in an overstated indirect cost rate and overbillings of \$144,228 which may need to be repaid to the federal government.

DOTD included both the audit costs paid during fiscal year 2013 and the audit costs per the Statewide Cost Allocation Plan (SWCAP), resulting in overbillings to the Federal Highway Administration for the Highway Planning and Construction Cluster for fiscal year 2013.

An agreement between the State of Louisiana and the U.S. Department of Health and Human Services prohibits state agencies from directly charging these audit costs to federal programs. To recoup these costs, state agencies are to prepare an indirect cost rate proposal that includes only the amount of audit costs allowed by the SWCAP. Federal regulations require refunds to be made if proposals are later found to have included costs that are unallowable.

DOTD should implement effective controls to ensure indirect cost rate proposals are accurately prepared and reviewed to reduce the risk of noncompliance with federal requirements and improper federal billings. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 1-2).

Inadequate Controls over Change Order Approvals

DOTD did not obtain the required approval of the Federal Highway Administration (FHWA) for four of the 86 (5%) change orders tested, totaling \$326,937, for Highway Planning and Construction program projects. In addition, DOTD did not maintain accurate information in its project management system related to required federal oversight for 54 of the 619 (9%) change orders tested. Failure to obtain the required FHWA approval could result in reduced federal participation, increased costs to the state, and noncompliance with federal regulations. Inaccurate data in the project management system could result in DOTD personnel not obtaining the proper approval or exhausting DOTD's time and efforts to obtain approval for projects in which FHWA approval is not required. This is the fourth consecutive year we have reported weaknesses in DOTD's controls over change order approvals.

These exceptions were caused by errors in preparation of the change orders by project engineers not correctly including the FHWA area representative on the list of required authorizations and by the insufficient review of project information entered into the project management system for accuracy. Federal regulations require the state transportation department to obtain FHWA approval of major change orders. Good internal controls require project information to be maintained to provide reliable data in order for DOTD to appropriately manage projects and ensure compliance with laws and regulations.

DOTD should continue to strengthen its controls and provide training to staff to ensure that they are aware of state and federal requirements and that FHWA approval is obtained for change orders related to federally funded projects. DOTD management should strengthen controls to ensure that the data maintained in the project management system indicating required FHWA approvals is accurate. In addition, DOTD should implement monitoring procedures to review the change orders report in Site Manager and determine that FHWA approval was obtained for all applicable change orders. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Inadequate Controls over Fueltrac Purchases

During fiscal year 2013, DOTD did not adequately monitor over \$1.1 million of fuel and related expenditures incurred by its headquarters section employees through the Fueltrac purchasing system, thereby increasing the risk that fraud and abuse could occur without being detected.

A test of Fueltrac purchases for March 2013 revealed the following:

- Seven of 15 (46.7%) vehicles tested had more gallons of gas purchased per the Fueltrac report than listed on the vehicle log. Because there is no departmental policy requiring a reconciliation of each vehicle's fuel card

purchases per the Fueltrac system to the associated vehicle log, unauthorized purchases can occur and not be detected by management.

- One of 15 (6.7%) daily vehicle logs was missing.

In addition, DOTD does not require a review of the reasonableness of gallons purchased for the actual miles traveled for each vehicle.

DOTD should have a Fueltrac policy and procedures manual that provides for uniform internal controls to be applied department-wide and should ensure that proper monitoring is performed on Fueltrac purchases. These procedures should include periodic reconciliations between the Fueltrac system and the vehicle logs as well as reasonableness tests relating to actual miles per gallon for each vehicle. DOTD should also train employees on these policies and procedures to facilitate uniform application and accountability. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 5-6).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DOTD. The nature of the recommendations, their implementation costs, and their potential impact on the operations of the department should be considered in reaching decisions on courses of action. The findings relating to DOTD's compliance with applicable laws and regulations should be addressed immediately by management.

The purpose of this letter is solely to describe the scope of our work at DOTD and not to provide an opinion on the effectiveness of the department's internal control over financial reporting or on compliance. Accordingly, this letter is not intended to be and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

EBT:RR:BQD:THC:dl:mk

DOTD 2013

APPENDIX A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



Office of the Secretary
PO Box 94245 | Baton Rouge, LA 70804-9245
ph: 225-379-1200 | fax: 225-379-1851

Bobby Jindal, Governor
Sherri H. LeBas, P.E., Secretary

December 9, 2013

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

**RE: Department of Transportation and Development
Audit Finding – Overbilled Indirect Costs**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “**Overbilled Indirect Costs**”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

We concur with the finding.

It should be noted that the Department strives to maintain an accurate and true indirect cost rate. Due to the complex nature of the calculation, it is susceptible to human error. Duplication of Legislative Auditor’s audit costs included in both the Statewide Cost Allocation Plan (SWACAP) and in the department’s operating cost was overlooked. The amount of the adjustment was \$144,228 which is 0.003% of the total Administration Expenses of \$46,245,837, resulting in an accuracy rate of 99.69%.

The Indirect Cost Rate proposal for FY 2014 has been corrected and approved by FHWA and the credit will be processed through the true up by the end of the current fiscal year.

Action Plan – The Department has revised the standard operating procedure for the indirect cost rate proposal to include a step to remove the direct charging of audit costs to federal programs. In addition, the revised procedure will confirm that all schedules are accurately prepared and reviewed to reduce the risk of noncompliance with federal requirements. These steps have been implemented.

Thank you for the opportunity to respond to this audit finding and to have this Management Response letter included in the final audit report. Please feel free to contact me or Michael Bridges, Undersecretary, should you have any questions at (225) 379-1270.

Sincerely,

Sherri H. LeBas, P.E.
Secretary

Daryl G. Purpera
December 9, 2013
Page 2 of 2

Attachment

c: Mr. Ricky Rodriguez, CPA, LLA
Ms. Lesha Woods, CGFM, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Ms. Nita Chambers, Deputy Undersecretary
Mr. Mark St. Cyr, DOTD Audit Director
Ms. Linda McNeil, DOTD Internal Auditor



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Bobby Jindal, Governor
Sherri H. LeBas, P.E., Secretary

October 28, 2013

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

**RE: Department of Transportation and Development
Audit Finding – Inadequate Controls Over Change Order Approvals**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “Inadequate Controls Over Change Order Approvals”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

We concur with the finding.

The Department of Transportation and Development (DOTD) concurs with the reported finding that the required approval of the Federal Highway Administration (FHWA) was not obtained for four of the 86 (5%) change orders tested, totaling \$326,937, for Highway Planning and Construction program projects. We also concur that DOTD did not have adequate controls over the change order approval process to prevent this error from occurring.

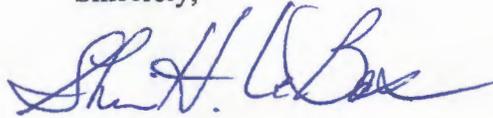
The LADOTD Headquarters Construction section has implemented additional controls to monitor this process. We have modified three (3) reports from our SiteManager system to include all required change order approvals for the specific change order types, including the FHWA representative. Any outstanding approvals remain highlighted on both the system report and routed signature copy of the change order until all required approvals are obtained. This ensures greater visibility of all unapproved change orders, and the specific approvals that are required. Additionally, we will continue to specifically discuss the change order approval process with the Project Engineers in the mandatory statewide meetings that are held in January – February each year. These formal meetings require each Project Engineer sign off documenting their attendance.

Daryl G. Purpera
October 28, 2013
Page 2 of 2

Finally, we will immediately communicate via email to all Project Engineers the Department Policy governing the change order approval process, and reiterate the requirement that FHWA approval is required on Cat. 1 and 2 change orders on Federal oversight projects.

Thank you for the opportunity to respond to these audit findings and to have this Management Response letter included in the final audit report. Please feel free to contact Michael Bridges, Undersecretary, or myself should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sherri H. LeBas".

Sherri H. LeBas, P.E.
Secretary

cc:

Mr. Ricky Rodriguez, C.P.A., LLA
Mr. Michael Bridges, P.E., DOTD Undersecretary
Ms. Lesha Woods, DOTD Financial Services
Ms. Linda McNeil, Internal Auditor
Mr. Mark St.Cyr, DOTD Audit Director



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December 9, 2013

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

**RE: Department of Transportation and Development
Audit Finding – Inadequate Controls over Fueltrac Purchases**

Dear Mr. Purpera:

The Department is in receipt of your single audit finding titled “**Inadequate Controls over Fueltrac Purchases**”. I appreciate the opportunity to respond to the finding and also to have my response letter included as an attachment in the final report.

We concur with the finding.

DOTD has been and will continue to perform procedures that provide mitigating controls over this process. These procedures include utilizing established miles per gallon (mpg) tolerances for our vehicles in the LaGov system to identify fueling exceptions and provide monthly reporting over these issues and including validation checks of the Fueltrac invoice during the creation of the work orders we generate to track vehicle oil changes.

We have identified the need for additional controls over our Headquarters (HQ) sections. As such, in July 2013, we implemented detailed procedures to ensure more stringent verification of these expenditures by the individual Sections which generated the costs. These procedures included specific instructions regarding reconciliation of receipts to the monthly invoice and required signature approval of the expenditures by the appropriate section heads. We also will conduct periodic audits of the HQ sections to ensure compliance with these procedures in FY14.

Additionally, our Internal Auditor is currently in the process of an agency-wide audit of our Fueltrac program. Upon completion of this audit, additional controls and procedures may be implemented, depending upon the results. At that time, we will adjust our Administrative Manual and develop an appropriate training plan to address any additional changes.

Please feel free to contact me or Michael Bridges, Undersecretary, should you have any questions at (225) 379-1270.

Sincerely,

Sherri H. LeBas, P.E.
Secretary

Daryl G. Purpera
December 9, 2013
Page 2 of 2

Attachment

**c: Mr. Ricky Rodriguez, CPA, LLA
Ms. Lesha Woods, CGFM, DOTD Financial Services Administrator
Mr. Michael Bridges, P.E., DOTD Undersecretary
Mr. Rhett Desselle, P.E., DOTD Assistant Secretary for Operations
Ms. Nita Chambers, DOTD Deputy Undersecretary
Mr. Mark St. Cyr, DOTD Audit Director
Ms. Linda McNeil, DOTD Internal Auditor**